



**Senate Committee on Local, Urban and State Affairs**  
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Testimony in Support of Senate Bill 418 - The Public Employee Health Benefit Act

Deborah Lantzy-Talpos, R.N., Head of Michigan Markets

Brian Marsella, Regional Head of Sales North Central - National, Government and Labor Accounts

Allan Gold, Senior Actuary, National, Government and Labor Accounts

Aetna supports Senate Bill 418, The Public Employee Health Benefit ACT, which improves the current system of purchasing health insurance plans for public school districts and local government. We believe the current system is unaffordable and cannot be sustained. The bill's requirement for release of claims experience and the voluntary development of regional purchasing pools will provide savings for school districts and local units of government. The rationale for our support is summarized below.

1. The bill promotes choice and competition

Competition is a major market force and competition is needed in the selection of health insurance plans for school employees in Michigan. School Districts should have the ability to secure competitive bids to assure value based purchasing and the best possible use of precious state dollars. It is impossible to know if a health plan choice is a good value unless there is a framework for comparison and multiple choices. Competitive bidding invariably lowers costs and rates. We believe that competition will improve affordability for school districts and local units of government in Michigan.

2. The bill promotes a transparent process

Release of claims data, of course while protecting member privacy, will enable school districts to seek a variety of competitive bids and will bring additional scrutiny and accountability to the process, ultimately benefiting the patient. Access to data is critical to leverage more sophisticated clinical management and cost containment techniques which will ensure the long-term solvency of the programs and promote increased member health. Without claims data, a school cannot receive competitive quotes, cannot implement the most appropriate medical management and communication programs and cannot monitor other costs being levied by the carrier.

3. Government will save money on health care benefits through pooling of risk

Generally the larger the number of individuals covered in the risk pool, the lower the cost for administrative and risk management. It should be noted, however, that size of the pool matters only to a point - at a certain enrollment level a pool will have achieved most of these

economies of scale. Additionally, it is important that these costs are transparent and are passed along to the school districts in the form of lower premium or administrative fees and not maintained by the carrier or administrator. Allowing competition for these risk pools and the provision of claim data will force carriers to propose the most economic and fair prices.

4. The bill preserves and respects collective bargaining rights

Aetna believes that current discussions on public employee health insurance plans are based on the need for more choices, greater competition and finding ways to reduce costs and preserve benefits and are not related to undermining labor unions. These discussions are occurring in virtually all businesses across the nation as the issues of health care quality, access and affordability are being addressed. Aetna opposes any legislation that would weaken the ability of public employees to bargain their compensation and benefits.

We would like to briefly discuss the key components of the bill and offer a few recommendations:

**Requiring the Release of Claims Experience and Transparency**

Release of Claims Data is commonplace in markets today. For self-funded and larger insured plans, it is a well-established practice to share claim experience as part of the administration of the plan. Typically, claim experience would be used by self-funded health plan administrators and their clients for a variety of purposes including:

- Providing important information for the health plan to develop medical plan design and service recommendations e.g. adding disease management programs to a plan. A school district with a large number of Diabetics would be able to offer interventions to address Diabetes and its complications.
- Demonstrating the total cost or savings impact of any plan changes. Health plans today expect to produce detailed reporting and rigorous Return on Investment Monitoring to validate the value of health care initiatives.
- Developing projected annual claim costs for self-funded plans and pools so they are able to estimate claims expense - Provides plan sponsors with the necessary information to develop contribution levels.
- Also, if the self-funded plan wanted stop loss coverage, it is critical to have claim experience to provide a stop loss quote.

Aetna takes seriously the need to protect our customer's plan information. As of the April 14, 2003 HIPAA Privacy Rule compliance deadline, Aetna had taken all steps necessary to comply with the April 14th Privacy Rule requirements. Key areas of compliance addressed appropriate use and disclosure of Member Health Information, as well as implementing appropriate administrative, technical and physical security safeguards for this information. The HIPAA Privacy Rules provide two additional safeguards in relation to underwriting activity. First, there is a specific provision in Section 514(g) limiting how a health plan may use or disclose protected health information obtained in the underwriting process. In short, if the business is not placed with that health plan, the protected health information may not be used for any other purpose. Section 504(f) relates to the disclosure of protected health

information to plan sponsors. This provision generally recognizes the need for such disclosure, particularly for underwriting purposes, but it balances that need against the need to protect the privacy of members. For example, plan sponsors are specifically limited in how they can use the information. They cannot, for example, use the information for any other employment purpose. Section 504(f) also explicitly recognizes the need to allow the disclosure of large claims data to clients. Large claims data would typically fall under the definition of "summary health information", which may be disclosed to plan sponsors for the limited purpose of obtaining premium bids or modifying, terminating or amending the group health plan.

Aetna's goal is to provide medical experience to our customers so that they can better manage and understand their healthcare costs. We provide this information when it is reasonably credible; it is utilized in setting clients rates, and in no way jeopardizes member confidentiality. It is common practice for groups larger than 100 to have access to claims information, whether they are insured or self-funded.

#### **Provides for public employers to self-fund in regional pools**

The bill would facilitate the development of voluntary regional pooling arrangements. School districts and local units of government would be free to join or remain independent. The opportunity provides school districts and local government the opportunity to leverage economies of scale and implement robust care management, disease management and wellness and prevention to maximize cost savings and improve health status.

We have some concerns about the potential for this fund to evolve towards a "high-risk" pool because of its voluntary nature. Groups that experience a year of good experience or low health care costs could choose to leave the pool for a lower cost arrangement. This type of risk can be mitigated. The best recommendation to mitigate this risk is to make the pool mandatory or to mandate the participation of smaller in size school districts and local units of government. Another option is to require a 3 year commitment to the purchasing pool, severe termination penalties and strong financial incentives for participation. It is important for the pool to have a stable size and enrollment.

#### **Provides for a state managed Stop-Loss or Catastrophic Claims Process**

The bill contains ambitious provisions for development of a state sponsored Catastrophic Claims pool. One of the ways a regional pooled plan would manage the risk of financing health care is through stop-loss insurance. Aetna supports the requirement that the regional pools would be required to maintain a minimum level of stop loss coverage consistent with the size of the pool. It should be noted that very large self-funded pools (exceeding 10,000 covered lives) would generally not be required to maintain stop-loss coverage at all because of the stability of the pool and the predictability of costs. Although we support the state's direction in making coverage available to regional pools on a statewide basis to leverage economies of scale, we question the rationale of making the stop-loss fund available to all medical benefit plans in the state.

Finally, we are aware that bill sponsors have estimated that school districts and local units of government would save at least 8% through development of regional pools. Because there is very little public accounting on the cost of health care benefits today in school districts, it is difficult to estimate the opportunity for savings. Aetna believes the 8% savings figure is achievable and is in fact a conservative estimate of the savings that can be achieved.

Aetna appreciates this opportunity to address the committee. We understand that rising health care costs are a critical concern to employers and government in this state and believe that fundamental change in health care purchasing is critical to addressing the problem. The Public Employee Health Benefit Act sets the stage for regional purchasing pools that will enable employees to play a more active role in their health care and to realize the cost-savings associated with behavior change.